

**VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM  
VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM  
VERMONT STATE TEACHERS' RETIREMENT SYSTEM**

JOINT Meeting of the Boards  
December 9, 2004

**VSERS Members present:**

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2006)  
ROBERT HOOPER, VSEA member (term expiring September 2006)  
ROB HOFMANN, Commissioner of Finance & Management  
JEB SPAULDING, Vice-Chairperson, VT State Treasurer  
JANICE ABAIR, Retired Vermont State Employees' Association  
CATHERINE SIMPSON, Alternate VSEA member (term expires September 2005)

**VSERS Member(s) absent:**

DICK JOHANNESSEN, Governor's Delegate  
CINDY LAWARE, Commissioner of Personnel  
WILLIAM HARKNESS, VSEA member (term expiring September 2005)

**VMERS Members present:**

STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2007)  
DAVID LEWIS, Employer Representative (term expiring July 1, 2006)  
MARIE DUQUETTE, Governor's delegate  
JEB SPAULDING, Vermont State Treasurer

**VMERS Member(s) absent:**

W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2005)

**VSTRS Members present:**

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2005  
JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2008  
JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007  
VAUGHN ALTEMUS, representing Commissioner of Education  
JEB SPAULDING, VT State Treasurer

**VSTRS Member(s) absent:**

THOMAS CANDON, representing Commissioner of BISHCA

**Also attending:**

Donna Holden, Board Coordinator  
David Minot, Director of Finance and Investments  
Ellen Griggs, Kevin Kondry, Dick Charlton, New England Pension Consultants  
William Griffin, Chief Assistant Attorney General  
William Rice, Assistant Attorney General  
Investment Management Personnel

Mr. Mackey, acting as the meeting's facilitator, thanked the members of the three Retirement Boards for their participation.

**ITEM 1:      Discuss Portable Alpha Strategy**

Dick Charlton, NEPC, provided a PowerPoint presentation on the portable alpha strategy. He advised the Trustees the information presented should be used as a prelude in considering the structure of their large cap sectors. He explained, in NEPC's opinion, portable alpha was a compelling alternative in a "low return" world, the general strategy could be used in many ways, and while this option was not for everyone, it was most definitely worth exploring.

Mr. Kaplan objected to the way the portable alpha managers were selected and read the VSTRS 8/18/04 motion authorizing the search. Mr. Kaplan said he didn't feel that portable alpha had been authorized and nowhere in the RFP on the Treasurer's Website was portable alpha listed.

**ITEM 2:      Manager Presentations**

**PIMCO: Enhanced Index Manager (Portable Alpha)**

Sabrina C. Callin, James M. Keller, and Bruce Pflug

**Bridgewater: Enhanced Index Manager (Portable Alpha)**

Robert Zink, Joel Whidden

In cooperation with Mr. Mackey, the Trustees discussed their opinions of the manager presentations. It was agreed by consensus of the Trustees, that if a Board decided to enter into a portable alpha contract, the first choice would be with PIMCO, and some would consider Bridgewater as a potential satellite manager.

**Barclay: Enhanced Index Manager**

Mark D'Andrea, Michael Askjaer, Nicholaas F. Marais

**INTECH: Enhanced Index Manager**

Terry R. Paquette, Russell Bjorkman

**NY Life: Enhanced Index Manager**

Dave Brown, Harvey Fram

**T Rowe Price: Enhanced Index Manager**

Christopher C. Newman, Deborah W. Veverka, D. Kyle Cerminara

**ITEM 3:**      **Discussion/Action**

In cooperation with Mr. Mackey, the Trustees discussed their opinions of the enhanced index manager's presentations. Each member was asked their opinion; if a Board decided to enter into an enhanced index manager contract, who would be their first choice? The straw pole of the Trustees resulted in an even split between NY Life and T Rowe Price. Mr. Minot said that assuming PIMCO is selected as a portable alpha manager, he favored the T Rowe Price product, while NEPC said they would recommend NY Life.

The same process was conducted for the equal weighted managers, with an overwhelming preference to SsgA, with the exception of Mr. Kaplan who favored the Bank of New York.

The cap weighted poll resulted in the unanimous consensus that SSgA would be each Board's selection, if they chose to enter into a contract.

Upon discussion it was agreed that NEPC would create a matrix and provide a correlation analysis with multiple scenarios between the selected portable alpha and enhanced index managers.

**ITEM 4:**

Mr. Spaulding advised the Trustees that the VSERS Board voted to do a search for a global bond manager. He asked if the VMERS Board was interested in participating in the educational and manager selection process, in the event they wanted to enter into the sector in the future.

Mr. Jeffrey and Ms. Duquette agreed they would like a limited involvement in the process, and thanked the Treasurer for bringing this opportunity to their attention.

Mr. Altemus suggested, in light of the proposed changes to the Social Security Program, the Boards hold an educational session on how and what impact such a change could have to the retirement systems. The Trustees agreed to schedule the item at a meeting after the beginning of next year.

**VSERS ACTION**

**The Vermont State Employees' Retirement System Chairperson, Warren Whitney, called the meeting to order at 4:03 p.m. on Thursday, December 9, 2004, at the Vermont State House Room #10, Montpelier, Vermont.**

***Members present:*** Mr. Whitney, Mr. Spaulding, Mr. Hooper, Mrs. Abair, and Ms. Simpson.

**On a motion by Mr. Hooper seconded by Ms. Simpson, the Vermont State Employees' Retirement System voted to select potential finalists for domestic large cap indexed products; including enhanced index managers NY Life and T Rowe Price, cap and equal weighted index manager SSgA, portable alpha manager PIMCO, and possible satellite manager, Bridgewater.**

Mr. Whitney explained the VSERS/State of Vermont would be facing a potential liability as a result of the GASB 43 & 45 regulations.

**On a motion by Mr. Hooper, seconded by Ms. Simpson, the Board unanimously voted to authorize the system's actuary, David Driscoll, to prepare a report on the impact to the State of Vermont/VSERS as a result of GASB 43 & 45 regulations.**

The Board agreed a funding strategy was needed to replace the current domestic large cap managers. It was agreed this item would be discussed at the December 16, 2004 meeting.

**On a motion by Mr. Spaulding seconded by Mrs. Abair, the Vermont State Employees' Retirement System Board unanimously voted to adjourn at 4:08 p.m.**

*Mr. Harris left the meeting.*

**VSTRS ACTION**

**The Vermont State Teachers' Retirement System Chairperson, Joe Mackey, called the meeting to order at 4:20 p.m. on Thursday, December 9, 2004, at the Vermont State House Room #10, Montpelier, Vermont.**

***Members present:*** Mr. Mackey, Mr. Kaplan, Mr. Altemus, and Mr. Spaulding.

The Board briefly discussed their November 17, 2004 action authorizing NEPC to conduct a search for an international growth manager to replace SSgA/Putnam Investments. The Board would like to review the search materials at the February investment meeting and agreed the criteria for the search should include advertisement in P&I, and Web posting. The potential manager must have a minimum of \$1 billion under management, a 3-year track record, and a client base with at least two public retirement funds.

**On a motion by Mr. Altemus seconded by Mr. Mackey, the Board unanimously voted to include "best in class" candidates in the search, and all respondents must indicate their style, i.e. growth, value, or core.**

**On a motion by Mr. Spaulding seconded by Mr. Altemus, the Vermont State Teachers' Retirement System Board unanimously voted to adjourn at 4:25 p.m.**

Respectfully submitted,

Donna Holden  
Board Coordinator